

**REPORT OF THE AUDIT OF THE
FORMER WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WARREN COUNTY CLERK

**For The Year Ended
December 31, 2014**

The Auditor of Public Accounts has completed the former Warren County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statements present fairly in all material respects, the receipts and disbursements of the former County Clerk and the receipts, disbursements, and fund balances of the former County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The former Warren County Clerk had total receipts of \$30,180,093, which was a \$784,397 increase from the prior year. Except for reimbursed expenses in the amount of \$170,559, the former Clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$660,001. This was an increase of \$4,944 from the prior year. In addition, 75% fund operating disbursements increased by \$1,277,322.

Report Comments:

- 2014-001 The Former County Clerk Lacked Segregation Of Duties And Had No Written Policy Over Accounts Receivable
- 2014-002 The Former County Clerk Had Weaknesses In Internal Controls Over Payroll

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanan, Warren County Judge/Executive
Honorable Dorothy Owens, Former Warren County Clerk
Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying statement of receipts and disbursements - regulatory basis of the former County Clerk of Warren County, Kentucky, the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Former Warren County Clerk
Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Clerk, as of December 31, 2014, or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the former County Clerk and the receipts, disbursements, and fund balances of the former County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2015 on our consideration of the former Warren County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Warren County Clerk's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Former Warren County Clerk
Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former County Clerk Lacked Segregation Of Duties And Had No Written Policy Over Accounts Receivable
- 2014-002 The Former County Clerk Had Weaknesses In Internal Controls Over Payroll

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

November 24, 2015

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services	\$ 37,212
Fiscal Court	22,501

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 3,639,550
Usage Tax	14,923,430
Tangible Personal Property Tax	9,087,798
Lien Fees	49,658
Notary Fees	20,230
Miscellaneous Income	10,730

Other-

Marriage Licenses	32,340
Miscellaneous Licenses	1,760
Deed Transfer Tax	515,773
Delinquent Tax	951,505
	29,232,774

Fees Collected for Services:

Recordings-

Bail Bonds	110
Deeds, Easements, and Contracts	53,291
Fixture Filings	1,489
Leases	1,392
Liens and Lis Pendens	19,222
Releases	52,905
Real Estate Mortgages	187,517
Chattel Mortgages and Financing Statements	276,861
Powers of Attorney	10,909
Wills and Estate Settlements	2,344
All Other Recordings	33,771

Charges for Other Services-

Candidate Filing Fees	2,510
Copywork	18,353
Postage	26,310
Refunds/Overpayments	79,814
Affordable Housing Trust	119,544
	886,342

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Receipts (Continued)

Other:		
Miscellaneous	\$	716
Interest Earned		<u>548</u>
Total Receipts		30,180,093

Disbursements

Payments to State:

 Motor Vehicle-

Licenses and Transfers	\$ 2,375,475	
Usage Tax	14,475,504	
Tangible Personal Property Tax	3,078,550	
Web Renewals	125,392	

 Licenses, Taxes, and Fees-

Delinquent Tax	123,053	
Legal Process Tax	99,125	
Affordable Housing Trust	<u>119,544</u>	\$ 20,396,643

Payments to Fiscal Court:

Tangible Personal Property Tax	1,023,209	
Delinquent Tax	147,273	
Deed Transfer Tax	489,984	
Miscellaneous	<u>1,012</u>	1,661,478

Payments to Other Districts:

Tangible Personal Property Tax	4,622,527	
Delinquent Tax	<u>404,625</u>	5,027,152

Payments to Sheriff 76,371

Payments to County Attorney 121,305

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements (Continued)

Other Disbursements:

Overpayments/Refunds	\$	86,332	
Miscellaneous		587	
Bad Debt		<u>1,041</u>	<u>\$ 87,960</u>

Total Disbursements		<u>\$ 27,370,909</u>
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Net Receipts		2,809,184
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Payments to State Treasurer:

75% Operating Fund *	2,149,183	
25% County Fund	<u>660,001</u>	<u>2,809,184</u>

Balance Due at Completion of Audit		<u><u>\$ 0</u></u>
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- * Includes reimbursed expenses in the amount of \$170,559 for the audit period.
See Note 1 of Notes to Financial Statements.

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2014

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2014	\$ 918,847	\$	\$ 918,847
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,149,183		2,149,183
Fees Paid to State - County Funds (25%)		660,001	660,001
Total Funds Available	3,068,030	660,001	3,728,031
<u>Disbursements</u>			
Warren County Fiscal Court	1,279,670	660,001	1,939,671
Personnel Services-			
Official's Statutory Maximum	111,463		111,463
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	3,910		3,910
Deputies' Salaries	975,255		975,255
Other Payroll	3,910		3,910
Employee Benefits-			
Employer's Share Social Security	84,634		84,634
Employer's Share Retirement	194,922		194,922
Employer's Share Health Insurance	128,712		128,712
Employer's Share Life Insurance	420		420
Workers' Compensation	3,403		3,403
Contracted Services-			
Computer Equipment	181,140		181,140
Software License Service	1,021		1,021
Copy Machines	11,251		11,251
Miscellaneous Maintenance Agreement	157		157
Tax Bill Preparation	14,909		14,909

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Supplies and Materials-			
Office Supplies	\$ 17,069	\$	\$ 17,069
Other Charges-			
Conventions and Travel	4,060		4,060
Bonds	3,910		3,910
Dues	3,655		3,655
Office Equipment/Maintenance	2,237		2,237
Books and Maps	908		908
Postage	20,000		20,000
Miscellaneous Office Expense	1,721		1,721
Telephone	5,181		5,181
Books and Binders	4,162		4,162
Miscellaneous Insurance - Unemployment	2,750		2,750
Miscellaneous Election Expense	337		337
Capital Outlay-			
Office Equipment	3,213		3,213
Office Repairs/Upkeep	450		450
Total Disbursements	3,068,030	660,001	3,728,031
Fund Balance - December 31, 2014	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2014

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

The former County Clerk's contribution for calendar year 2012 was \$197,496, calendar year 2013 was \$195,798, and calendar year 2014 was \$202,869.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

A. Computer Software and Hardware

The office of the former County Clerk was committed to a lease agreement with Software Management, LLC, for the purchase of computer hardware and software. The agreement ended on July 21, 2014, but renews automatically for additional one-year terms thereafter at the rate in effect on such automatic renewal date, unless written notice received from either party 60 days prior to the renewal date. The balance of the lease as of December 31, 2014 was \$105,665.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014
(Continued)

Note 4. Leases (Continued)

B. Copiers

The office of the former County Clerk committed to a lease agreement with RJ Young Company on September 6, 2013 for a Ricoh copier. The original agreement required a monthly payment of \$164 for 60 months. In October 2014, the required monthly payment increased to \$171. The former County Clerk also committed to another lease agreement with RJ Young Company on December 13, 2013 for two Ricoh copiers. The agreement requires a monthly payment of \$365 for 60 months.

C. Postage Meters

The office of the former County Clerk was committed to a lease agreement with Hasler Financial Services, LLC for a postage meter. The agreement requires a monthly payment of \$254 for 63 months. This lease agreement ended in August 2014.

The office of the former County Clerk committed to a lease agreement with Mail Finance on March 24, 2014 for a postage meter. The agreement requires a monthly payment of \$317 for 60 months.

Note 5. Health Reimbursement Account

The former County Clerk's office established a health reimbursement account on January 1, 2013 to provide employees an additional health benefit. The former County Clerk's office contracted with Benefit Marketing Solutions, LLC, a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing \$3,600 less administrative and annual fees each year to pay for qualified medical expenses. Eligible employees received \$3,430 after administrative and annual fees for calendar year 2014. If employees are no longer employed by the County Clerk's office or decide to no longer participate in the health reimbursement account, the funds revert to the County Clerk's office. The balance of the plan as of December 31, 2014 was \$12,294.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanan, Warren County Judge/Executive
The Honorable Dorothy Owens, Former Warren County Clerk
The Honorable Lynette Yates, Warren County Clerk
Members of the Warren County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements - regulatory basis of the former Warren County Clerk for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2015. The former County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the former Warren County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Warren County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Warren County Clerk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 24, 2015

COMMENTS AND RECOMMENDATIONS

WARREN COUNTY
DOROTHY OWENS, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Former County Clerk Lacked Adequate Segregation Of Duties And Had No Written Policy Over Accounts Receivable

A lack of adequate segregation of duties existed over accounts receivable in the former County Clerk's office. We noted the former County Clerk had no written policy for the allowance or collection of accounts receivable. We reviewed accounts receivable journals and noted employees who allowed charges were also responsible for the collection of the accounts receivable.

The lack of segregation of duties occurred because the former County Clerk failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increased the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties over accounts receivable would have prevented the same person from having a significant role in these incompatible functions.

The former County Clerk should have required: a) proper authorization for accounts receivable charges and collections, b) documented reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, and c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures.

Former County Clerk's Response: No Response.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-002 The Former County Clerk Had Weaknesses In Internal Controls Over Payroll

The former County Clerk's office had weaknesses in internal controls over the payroll process. The below weaknesses in internal control over the payroll process were allowed to occur because the former County Clerk's controls and oversight over the payroll process did not operate correctly. We noted the following weaknesses and the results of those weaknesses:

- Time reports were not always signed timely and dated by employees and the former County Clerk and/or supervisor which could result in incorrect timesheets being submitted and employees being over or under paid. For the time periods tested, four out of fifteen timesheets were signed two months after the time period by the employees.
- Employees could manually enter time into the time clock on the computer if they forget to clock in or out. This can be done by any employee who knows the password and will show up on the time clock report as added items with a + in bold font; however, there is no way of knowing who is making these changes which could also result in incorrect timesheets being submitted.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2014-002 The Former County Clerk Had Weaknesses In Internal Controls Over Payroll (Continued)

- Leave balance reports were not properly maintained. We noted instances where leave request forms were not always signed and dated by the employees or former County Clerk, leave time was taken without a leave request form in an employee's file, and leave time was taken with no leave time being deducted from that employee's leave balance report. We noted another instance where an employee's leave request form requested one sick day but the former County Clerk deducted one vacation day. By not maintaining adequate leave balance requests, it could result in leave balances not agreeing to balances maintained by employees. It could also result in employees being paid for hours not actually worked.

Good internal controls dictate that time reports should be properly signed and dated by employees and the County Clerk and/or supervisor. The time clock system in the computer should have been password protected where only the former County Clerk and/or designated payroll personnel had access to change. Leave requests for vacation, sick, compensatory time should have all be maintained and signed by the employees and former County Clerk and/or supervisor indicating which balance to deduct time from. The former County Clerk's office should have strengthened internal controls over the payroll process by implementing these procedures.

Former County Clerk's Response: No Response.

